

INTRODUCTION

The Trailblazers for New-Triton (TNT) is a Business Process Reengineering (BPR) team formed primarily to develop recommendations for significantly improving administration and operations of the Food Distribution Program on Indian Reservations (FDPIR). This program was selected from among the Household Commodity Programs as the focal point for several reasons. It offers the greatest opportunities for improvement in terms of service to organizational customers, provides the most logistical challenges, and is the most labor-intensive to administer. However, some changes in FDPIR would also affect TEFAP and the CSFP. For example, a decision to purchase only commercially labeled products for FDPIR would impact the other Household Programs as well because it would not be practicable to purchase the same product in the same pack size in both commercial and USDA labels. Changes in procedures for multi-food shipments to recipient agencies from the contract warehouse in Carthage, Missouri, would have consequences not only for most Indian Tribal Organizations (ITOs) participating in FDPIR, but also for the relatively few agencies receiving multi-food shipments in the CSFP. For these reasons, two additional teams consisting of TEFAP and CSFP stakeholders were convened for one day to be briefed on objectives and progress of the TNT Team, and to voice concerns from the perspective of their programs that TNT should address.

The TNT Team established the following Mission Statement:

To improve the health and well being of program participants through FDPIR transformation by:

- **providing greater choice and flexibility for all customers;**
- **improving program operational and administrative effectiveness; and**
- **maximizing resource utilization.**

Pursuant to its mission, the Team addressed the following major topics:

- Commodity procurement/delivery
- FDPIR administrative funds allocation
- FDPIR nutrition education

The Team presents in this final report five recommendations. Each recommendation is preceded by background information. As appropriate, alternatives considered before reaching a conclusion are described and evaluated so that recommendations emerge in the full context of the Team's deliberations. The discussion of purely operational issues relative to commodity procurement/delivery includes a proposal to establish an Implementation Team which would prepare the detailed plans necessary to execute recommendations that are ultimately approved.

For additional background information, please consult
<http://www.fns.usda.gov/fdd/MENU/fd2000/>.

PROCUREMENT/DELIVERY SYSTEMS FOR FDPIR AND OTHER HOUSEHOLD PROGRAMS

BACKGROUND

In recent years, incremental improvements have been made to current procurement and delivery systems for Household Programs:

- Inventory for multi-food deliveries is replenished based on historical data. Recipient agencies can order two months in advance of desired delivery rather than six, and they order from a list of foods already in inventory or purchased and in transit.
- For deliveries from the Americold warehouse in Kansas City, the Farm Service Agency (FSA) divided the country into zones and established long-term contracts with carriers to improve service.
- A pilot project to procure commodities in commercial labels was initiated in 1996 and has expanded gradually to include almost 20 products.
- Some commodities are being procured through longer-term contracts to improve fill rates.

However, major opportunities for improvement remain:

- The Federal procurement system cannot react quickly enough to unanticipated changes in demand.
- Late deliveries persist for a variety of reasons:
 - USDA could not purchase a product in desired quantities on schedule.
 - A vendor failed to honor his contract, i.e., delivered late or in less than the contract volume, delivered product that did not meet contract specifications, or did not deliver at all.
 - FNS did not accurately project program needs and, therefore, requested purchases of less than needed quantities.
 - For multi-food shipments only, food reached the warehouse in Carthage, Missouri, or Visalia, California, on time, but was shipped out to recipient agencies late because of: (1) Federal procedures which cause delays in receipting of commodities so that, while they are physically present in the warehouse, they are unavailable for shipment; or (2) outbound shipment problems due to carrier performance or the organizational separation of some warehousing and shipping functions.
- Procedures at the Federal level are labor-intensive and inefficient.
 - The process of placing and filling orders involves many different offices--some unnecessarily--and some of these offices duplicate functions or second-guess decisions made earlier in the chain.

- Due to failed procurement efforts, the entire ordering process must frequently be reinitiated, and labor-intensive arrangements must be made for product substitutions and for “fair sharing” of inventories among recipient agencies when inventories are insufficient to fill all orders.
- The Tri-Agency Processed Commodity Inventory Management System (PCIMS) is insufficiently flexible, creates inefficiencies, and requires an extremely high level of maintenance.
- Product problems reduce customer satisfaction:
 - Problems persist with quality, acceptability, pack size, and/or packaging defects.
 - Generic USDA labeling carries the stigma of charity and invites deficiencies in product quality because the manufacturer can market the product anonymously, without the risks of harm to reputation that can take place with branded products.
- Long delays--sometimes in excess of a year--occur in introduction of new products.

REINVENTION OBJECTIVES

Given this background, the Team established the following reinvention goals for Household Programs procurement/delivery systems:

- Timely delivery, defined as providing recipient agencies any product included in the FDPIR and CSFP food packages, and any product offered in TEFAP, in the quantities they want when they want it.
- Greater product variety within the established food packages.
- Greater flexibility in ordering and delivery options.
- Improved product quality and acceptability.
- Reduced inventory levels and reduced cost of inventory management through movement toward just-in-time inventory.
- Reduction in Federal staff resources devoted to procurement and delivery.
- Quicker introduction of new products.

ALTERNATIVES CONSIDERED

In order to accomplish these objectives, the Team considered three options. All options have the following characteristics:

- **Direct Ordering.** Recipient agencies with ordering authority place orders directly with the entity that ships the food. Orders can be placed and filled without third-party intervention. Direct ordering increases Federal efficiency and has great potential for improved customer service through the removal of middlemen. This feature requires Indian Tribal Organizations (ITOs) and other recipient agencies to assume greater responsibility for determining their commodity needs and ordering in accordance with system requirements. Initially, Regional Offices will have to shift resources currently spent either performing these functions for recipient agencies or reviewing and adjusting recipient agency actions to training efforts so that these agencies can perform as required. Team members strongly believe that this shift in functions and responsibilities is not only a means for improving program efficiency in FDPIR and other programs, but also an appropriate supporting action for Tribal self-determination. There is, however, some concern that a few ITOs may not be able to assume this level of responsibility.
- **Procurement of Commodities Exclusively in Commercial Labels.** By this the Team means that products which USDA purchases in commercial labels must also be sold to commercial customers in the same labels, as opposed to a manufacturer creating a brand exclusively for sale to USDA. Limiting products to those which are also sold commercially provides added assurance of quality in that the manufacturer's reputation and viability in the commercial marketplace depend upon the quality of the product. Completing the shift to commercial labels depends on finding commercially available alternatives to products such as canned beef for which USDA is currently the only customer.

Option A. USDA continues to procure commodities, with the following major reinventions:

- **Warehousing and delivery systems are reengineered to facilitate timely delivery.** This requirement has been partially met through the decision of Americold, Inc., to shift performance of its USDA contract from its facility in Kansas City to a newly acquired facility in Carthage, Missouri. Unlike the Kansas City facility, Carthage integrates warehousing and delivery functions, making direct ordering possible. It also gives USDA a business partner that has extensive experience with the retail food industry and a demonstrated capability to meet exacting industry standards. Agencies receiving multi-food deliveries through Household Programs deserve this same level of service. Dramatic improvements in timely delivery are already in evidence. (Workman, the other contractor for warehousing of Federal multi-food inventories, recently decided to shift from Exeter, California, to a significantly better facility in Visalia. This change does not, however, address the timely delivery issue.)
- **Contracting procedures are reinvented to ensure that USDA can dependably buy what the customer wants when the customer wants it in the necessary quantity.**
 - The Team strongly favors long-term, best-value, negotiated, indefinite quantity/indefinite delivery contracting for all commodities as the best available means for ensuring successful procurement efforts while at the same time improving product quality and reducing Federal workload and inventory levels. This method would replace current short-term, low-bid

contracting, which encourages manufacturers to consider USDA as the customer of last resort, to which commodities are sold only when the commercial market cannot fully absorb available supplies. Negotiated, best-value contracting also gives greater consideration to product quality and manufacturers' reliability and level of service. Although effects of this change on costs remain to be seen, the Team believes that the greater volumes per procurement action that is acquired through long-term contracts would yield savings that more than offset the expense of establishing a more competitive position with commercial purchasers in the marketplace. Until the net impact on costs can be determined, an immediate change in contracting method would be essential only for products with a history of quality or fill-rate problems. A phase-in of other products could then take place.

- The shift to long-term contracting would also require USDA to effectively address limitations on contracting discretion imposed by the annual appropriations process. Contracts can cross fiscal years only if they are contingent upon adequate future appropriations. The ranges for indefinite quantities would also have to be established so that they accommodate USDA's need to stay within limits imposed by appropriations while at the same time offering purchasing commitments that are sufficiently attractive to prospective bidders.
 - Reinvention of contracting procedures would also entail strict and more rigorously enforced contractor performance standards. While the Team sees tighter standards and better enforcement as necessary, more effective vendor selection through negotiated, best-value contracting should diminish both the need to police performance and the incidence of contract violations.
- The Team estimates that this option would reduce Federal staff years devoted to commodity procurement/delivery from 20 to about 10.

Option B. USDA contracts directly with one or more commercial wholesaler/distributors. The contractor(s) accept responsibility for all procurement and delivery. USDA administers the contract and pays the bills.

- Contract administration, at least initially, would entail establishing an annual spending ceiling/entitlement for each entity that has ordering authority in order to stay within entitlements for TEFAP and total funds available for FDPIR and CSFP.
- The contractor(s) would manage product complaints and recalls.
- This option has greater potential than Option A for broadening product choice in that wholesaler/distributors must carry a very wide range of products for commercial customers, whereas USDA purchases only for program purposes and inevitably experiences inventory build-up in Federal warehouses as products are added. Option B would allow for quicker introduction of new products into the programs. It would also achieve a greater reduction in the Federal staff resources necessary to manage procurement and delivery.

Option C. USDA becomes party to the existing contract(s) which another Federal agency has with commercial wholesaler/distributors. Under this option, USDA simply establishes the ordering/entitlement caps and pays the bills.

- This is essentially the system under which fresh produce is provided via the Department of Defense to FDPIR, and it has proven to be extremely efficient and cost-effective.
- This option has the same advantages as Option B, as well as an added benefit in that USDA would not have to undertake the major task of research and development before entering into contracts. All such work would have been completed by another Federal agency. Thus this option could be implemented much more quickly.

ANALYSIS OF ALTERNATIVES

- Cost was the key, but not the only, criterion the Team employed to analyze the above options. The Team was limited in its efforts to gather cost and level-of-service data (e.g., frequency of delivery), and in the conduct of a cost-benefit analysis, by (1) time and available staff resources, (2) the inability to make a sufficiently firm statement of intent to commercial enterprises to elicit their most careful and comprehensive response, and (3) insufficient information on the standard practices of commercial wholesaler/distributors. Given these limitations, the following protocol was developed. Team members interviewed and/or provided a data gathering instrument (see Attachment A) and background information to SuperValu, Fleming, and Nash-Finch--the three biggest national wholesaler/distributors--and to the Department of Defense Commissary Agency (DeCA). The instrument was designed to capture information on estimated product costs for serving FDPIR and levels of service available. The DOD Defense Supply Command in Philadelphia (DSCP) was later added to the list of contacts.
- However, the data submitted are neither comprehensive nor thoroughly comparable, hampering the Team's ability to reach definitive conclusions. Only costs could be compared, and the cost data are questionable. A meaningful analysis of level and quality of service was not possible. Data did not include the full cost for all commodities available in FDPIR delivered to all destinations. A sample of 32 out of approximately 70 commodities was randomly selected. These may not be representative of cost differences among the various options. None of the options offered the lowest price for all commodities in the sample. USDA costs are based on the current low-bid procurements and could be significantly different under a reinvented Federal procurement system based on long-term, best-value contracting. Not all respondents restricted their cost estimates to American-produced products. Finally, not all respondents submitted estimates for all products in the sample. The methodology for projecting total cost of each option was also flawed. For example, the costs of the 32 products in the sample were simply averaged rather than weighted to reflect each product's share of total purchases.

- The following annual costs for FDPIR commodity procurement/delivery for the organizations which submitted cost data must be considered suspect approximations rather than accurate, reliable estimates.
 - Option A: USDA continues to procure commodities: \$54.1 million
 - Option B, commercial wholesaler/distributor No. 1: \$67.3 million
 - Option B, commercial wholesaler/distributor No. 2: \$73.8 million
 - Option C: DOD/DeCA: \$101.4 million
 - Option C: DOD/DSCP will soon provide an estimate of the cost of procuring and delivering commodities to all ITOs in the Midwest Region through commercial prime vendor contracts.

- The Team's expectation was that commercial profit margins would be more than offset by the greater efficiencies achieved by businesses under the pressure of competition, which is not experienced by Government. Since the national commercial wholesaler/distributors purchase volumes of product that equal or exceed volumes purchased by USDA, the cost differential could not be explained by differences in volume. Following are possible explanations for the differences in approximate costs between USDA and the other entities which submitted data.
 - For at least some product categories, vendors have indicated that they sell to USDA only product which they cannot sell in the commercial marketplace. This would account for the generally lower costs under the current procurement system, and for the fact that USDA sometimes cannot purchase products at times when they are widely available commercially. Sale of surplus product to USDA is encouraged by USDA's short-term, low-bid procurement practices, as opposed to the more inviting standard commercial practice of long-term, best-value contracting.
 - Wholesalers/distributors must stock 11,000 - 14,000 items (as opposed to the approximately 70 which USDA purchases for Household Programs). Management of this number of items is labor-intensive, and many of these items must be sold at cost or less. What USDA sometimes buys within a cost-driven environment at surplus prices, they must purchase in a demand-driven system, and the Team believes that they must distribute the cost premium across all products, including the products that USDA would secure from them.

- The Team concluded that the cost differential between procurement by USDA and the other alternatives is so great that even a perfectly designed cost comparison, with complete and reliable data, would not appreciably close the gap between Option A and the other options.

RECOMMENDATION #1

The Team recommends implementation of Option A, i.e., a reengineered procurement/delivery system in which USDA continues to purchase the commodities, with specific performance standards and time frames. These performance standards constitute an adaptation of widely implemented commercial practices. Within nine months of the date of this report:

- **The Agricultural Marketing Service (AMS) and FSA achieve a 98-percent fill rate. That is, these agencies contract for delivery in the quantities requested/approved by FNS, and vendors deliver fully acceptable products in such quantities, within the requested delivery periods. This standard applies both to direct deliveries to recipient agencies, and to deliveries to the Federal warehouses in Carthage and Visalia. The Implementation Team (see below) will establish specific parameters for fill rate and ensure that appropriate performance measures are in place.**
- **The Federal contract warehouse in Carthage, Missouri, achieves 95-percent timely delivery of multi-food shipments to recipient agencies. A delivery is late if the ordered commodities are available in Carthage inventory in time to meet the delivery date requested by the recipient agency, but the delivery takes place later. The delivery is late if Carthage pushes back the delivery date and meets the revised delivery date. The Implementation Team will be responsible for establishing specific parameters for timely delivery of multi-food shipments and ensuring that appropriate performance measures are in place.**
- **Products are available for multi-food shipment within 7 working days of receipt in the Carthage and Visalia warehouses.**
- **All commodities for Household Programs are procured in commercial labels, and commercial labels only, except for commodities which only USDA buys, e.g., canned beef, and bonus commodities. (Efforts are initiated to find acceptable commercially available substitutes for products which only USDA buys, and to increase the number of bonus products in commercial labels.)**
- **In order to ensure quicker introduction of new products, AMS and FSA rely to the maximum extent possible on Commercial Item Descriptions rather than unique specifications developed by USDA. To enhance quality control, USDA may narrow the field of eligible bidders based on sensory testing. USDA may also limit eligible bidders to those which can meet special nutritional requirements appropriate to program participants, e.g., limits on fat, sodium, and sugar.**
- **Agencies receiving multi-food shipments from the Carthage warehouse place their orders directly with Carthage. The process from ordering through delivery of such shipments can be completed without intervention of Federal agencies. For multi-food shipments from Visalia and for direct shipments in all Household Programs, recipient agencies that do not use the Electronic Data Interchange (EDI) system would place orders directly into the Processed Commodity Inventory Management System (PCIMS) via a modem, for assessment by FNS Headquarters. (In June some members of the Team met with staff from the FSA Kansas City Commodity Office to discuss how modem-based access to PCIMS might work.)**
- **During the initial implementation period, an interim ADP system is installed which functions separate and independent of PCIMS to provide for direct multi-food**

ordering and delivery from Carthage. The point of departure for selecting a system should be examination of the system through which Carthage currently transacts business with its commercial customers. Contact should also be made with a Carthage customer that receives deliveries at numerous locations for an independent opinion on the Carthage system. The possibility of adapting this system to meet USDA's needs should first be explored. If this proves impracticable, it should be possible to select a system from the wide variety of currently available off-the-shelf business software, with a minimum of adaptation to meet program needs. In any event, Carthage should be actively involved in the process, and the system should accommodate its standard procedures to the maximum extent possible. The Team assumes that PCIMS will ultimately be replaced and, therefore, does not envision the interim system as being dependent upon input from PCIMS. Subject to decisions by the Implementation Team, the system should have the following capabilities:

- The system records all inbound shipments, by program, within one working day after receipt so that FNS/HQ has ongoing access to almost-real-time inventory information.
 - Based on Forwarding Notices (i.e., notices to Carthage of food that has been purchased and is in transit), combined with inventory on hand, the system issues to recipient agencies a list of foods available for delivery by specified dates. This list is issued at least monthly.
 - The system records outbound shipments of each product by lot and contract number to facilitate complaint processing and recalls by USDA.
 - The system automatically generates replenishment requests when inventory of any product falls below specified levels. FNS/HQ has access to these requests as they enter the system.
 - The system records transportation costs.
 - The system records storage costs.
 - The system generates perpetual inventory records for each commodity, incorporating adjustments for over/short/damaged shipments.
 - The system generates Notices of Delivery.
- A permanent Implementation Team is established not only to structure and monitor the final recommendations approved by the Commodity Improvement Council, but also to explore further possible improvements to the food procurement/delivery process for Household Programs. The Team should consist of FNS/HQ and Regional Office staff, FSA/HQ and Kansas City Commodity Office staff, AMS staff, and representatives from the National Association of Food Distribution Programs on Indian Reservations and other Household Program groups as appropriate.
 - If the primary recommendation is not fully and successfully implemented within the prescribed time frames, the Team recommends that Option C be implemented through DOD/DSCP on a pilot basis for all ITOs in the Midwest Region.

DISCUSSION

- Option A is recommended primarily for three reasons:
 - It appears to cost much less than the other options.
 - USDA procurement systems have the demonstrated capacity to accommodate bonus commodities and ensure compliance with “Buy American” legislative mandates. It remains to be determined how these two important aspects of USDA food distribution programs would be accommodated under either of the other alternatives.
 - It entails less risk of serious disruption of services to program customers than the other options.

- However, Option C holds the greatest potential for both customer service improvements and savings in USDA staff time. If cost were not the leading consideration, Option C would be the preferred alternative. Therefore, it should be implemented on a pilot basis in the event that Option A does not meet the specified performance standards within the specified time frames.
 - Absent complete and reliable information on costs of the options, actual cost differences could be ascertained through a pilot.
 - Implementation of Option C on a pilot basis would provide added incentive for USDA to realize the full potential of Option A in a timely manner.
 - Because Option C provides the benefit of pre-established contracting by another Federal agency with commercial wholesaler/distributors, it could be implemented much more quickly than Option B, which would require that USDA first develop the expertise necessary to enter into such contracts.

- The Team does not recommend simultaneous implementation of any two options at the outset because neither could receive the attention and oversight necessary for success.

AUTOMATED INVENTORY SYSTEM (AIS)

BACKGROUND

- This system is used by over 100 ITOs and State agencies (SAs) to:
 - Document commodity issuance to participants
 - Manage inventories
 - Generate the monthly distribution reports required by FNS.
- AIS responsibilities were informally assumed by the Mountain Plains Regional Office (MPRO) of FNS in 1993, and the Region developed the current software. The Region has also provided invaluable advice and counsel in the development of an electronic “bridge” between AIS and FNS’s SNPIIS system so that regions no longer need to keypunch all of the data from the more than 100 FDPIR distribution reports that ITOs/SAs file each month.
- In the past few years, use of AIS has expanded from relatively few ITOs to almost all ITOs/SAs. With this wider adoption of AIS, and the relatively high staff turnover at ITOs, the need for trouble-shooting by the Regional Offices has greatly increased. The vast majority of questions and problems are referred to the MPRO, where the greatest system expertise exists.
- As AIS responsibilities have expanded, Regional Office staff reductions have taken place. Therefore, MPRO is no longer able to service the system with current staffing. Without adequate staff support, the system will soon deteriorate, and an important management/reporting tool will be lost to FDPIR.

RECOMMENDATION #2

The Team recommends that additional staffing be provided to the MPRO, which would function as a Center of Excellence, to:

- **Maintain that system, i.e., staff a help desk to meet the needs of AIS users, update the system as new commodities are added to the FDPIR food package and guide rates are otherwise revised, keep the system current as Information Technology evolves, and advise Regional Offices and ITOs/SAs regarding appropriate hardware for the system.**
- **Improve the system, e.g., convert it to a Windows format, and expand the program management functions that the system can perform or support. (Requests for system enhancements by ITOs are increasing, but AIS staffing is insufficient to respond.)**
- **Advise on procurement/adaptation of the ADP system referred to in Recommendation #1 for the direct ordering of multi-food shipments from the Carthage warehouse.**

FDPIR ADMINISTRATIVE FUNDS ALLOCATION: FUNDING FORMULA ISSUE

BACKGROUND

The current system of allocating FDPIR administrative funding to Indian Tribal Organizations (ITOs) and State agencies (SAs) is characterized by inconsistencies and apparent inequities. It is also extremely labor-intensive for the Food and Nutrition Service (FNS).

- The Team addressed this issue in response to (1) 1994 and 1998 Resolutions of the National Association of Food Distribution Programs on Indian Reservations (NAFDPIR), and (2) the need to reduce Federal staff resources necessary to administer FDPIR. NAFDPIR Resolution 98-03 conveys a “request for a cooperative effort between USDA and Tribal Officials to develop a national FDPIR funding formula to provide an equitable means of distributing funding.”
- FNS Headquarters allocates administrative funding among Regional Offices based on long-standing historical precedents that cannot be fully explained at this late date.
- Each Regional Office uses its allocation to negotiate an administrative grant with each ITO and SA under its jurisdiction. No two regions establish grants using the same methodology. Inconsistencies result. Programs with similar size and other characteristics, but located in different regions, often receive significantly different grants.
- The budget negotiation process is labor-intensive for Regional Offices, which negotiated grants in FY 1998 with more than 100 ITOs and SAs. Some Regional Offices have informally developed their own short-cuts and quasi-formulas, but while these actions save time, they may also serve to institutionalize inconsistencies across regions.
- The Team estimates that five Federal staff years could be saved if the current process were replaced by a formula.
- The formula issue is controversial because it inescapably entails redistribution of funds across ITOs and SAs. For this reason, and pursuant to Executive Order 13084 on Consultation and Coordination with Indian Tribal Governments (May 14, 1998), the Team formally solicited input from all participating Tribal Governments and SAs on this issue. (Materials sent to Indian Tribal Governments for comment are included in Attachment B.) The Team carefully considered tribal comments and perspectives.

OBJECTIVES FOR ADMINISTRATIVE FUNDS ALLOCATION

The Team initially identified desired characteristics of an administrative funds allocation system. As the Team considered alternative approaches to funds allocation, the last of the following characteristics was deleted.

- Allocates funds equitably and consistently in a direct and understandable way.
- Provides a minimum level of funding that is sufficient for even the smallest Tribes.
- Is based on “cost drivers,” or independent variables, that actually generate administrative costs, e.g., level of participation.
- Reflects economies of scale, i.e., the principle that the more participants a program serves, the less the administrative costs for serving each participant.
- Does not radically redistribute funds among ITOs and SAs.
- Is not labor-intensive to administer.
- Implements redistribution gradually over a period of years.
- Reserves funds for Regional Offices to allocate to ITOs/SAs outside of a funding formula.

FUNDS ALLOCATION ALTERNATIVES CONSIDERED

The Team focused on the possibility of an administrative funding formula given the goals of equity, consistency, and administrative efficiency. Three basic formula models were developed by the Food Distribution Division based on instructions from the Team. All three models share five characteristics: (1) uniform treatment of Tribes with Federal program agreements and Tribes participating under State agencies, (2) grouping of Tribes by levels of participation, (3) base grants, (4) the same steps for computing grants, and (5) the same method for addressing increases or decreases in the total amount of funding available for program administration from year to year.

Tribes Operating under State Agencies. Twenty-seven Tribes operate the program under seven SAs. Most of these Tribes perform all program administrative functions; SAs generally consolidate orders and reports, monitor tribal programs, and provide technical assistance. When this division of labor occurs, the Team determined that these Tribes should be treated in a formula as if they operated the program under direct agreements with USDA. To treat a number of Tribes as a single program under the SA, with their individual participation levels added up to a single total, would be to assume economies of scale that are not actually achieved. Furthermore, base grant funding for the SA as a single entity would be less than base grant funding when each Tribe is considered as a separate entity. The Team proposes that the Regional Office and the SA would cooperatively determine how much of the total funding generated by the formula for Tribes under the SA’s jurisdiction should be available to cover SA costs. A portion of this amount would be

taken from each Tribe's formula grant based on the Tribe's share of the total participation of all Tribes participating under the SA.

Grouping of Programs by Level of Participation. Grouping by level of participation reflects economies of scale in the formula models. Programs were listed based on their participation, from largest to smallest, and the groups were established based on natural breaks in participation levels: 0-199, 200-499, 500-999, 1,000-3,999, 4,000-9,999, and 10,000 and above. Grants which each ITO in a participation group received in fiscal year (FY) 1998 were then added together. Dividing the total grants received by the group into the total average monthly participation for the group revealed that, with a single explicable exception that is addressed through the Team's recommendation, and notwithstanding inconsistencies in the budget negotiation process, it does reflect economies of scale. For example, ITOs in the 200-499 group received less per participant in FY 98 than ITOs in the 0-199 group, and the grant per participant diminished progressively, with one exception. The 10,000-and-above group receiving the smallest grant per participant. Thus using FY 98 composite grants for each group as a point of departure for the funding formula models ensured that they would reflect economies of scale.

Base Grants. Primarily to provide sufficient funding for small programs, the following base grant structure was developed:

■ Participation 0-199:	\$5,000
■ 200-499:	\$10,000
■ 500-999:	\$15,000
■ 1,000-3,999:	\$20,000
■ 4,000-9,999:	\$25,000
■ 10,000 and above:	\$30,000

Steps for Computing Grants. Each participation group starts with a total funding level equal to the total funding that ITOs in the group received in the preceding fiscal year. (For purposes of exploring the impacts of various models, FY 1998 was, as indicated above, used as the base year.)

- From the amount of funding available for the group in the previous fiscal year, base grants are first subtracted and awarded to the individual ITOs.
- The remaining funds are distributed among ITOs in the group based on the cost driver(s), or independent variable(s) built into each formula model.
- If an ITO's participation for the prior period places it in a different group, the ITO and its total funding for the prior fiscal year would both be moved to the new group.
- Average monthly participation for the most recent 12 months for which complete data are available would be used in the computation of the next year's administrative grants.

Funding Increases and Decreases from Year to Year. If total funds available for program administration decrease or increase, the gains or losses would be distributed across each participation group based on its share of total program participation.

FORMULA MODELS

Model A: After awarding base grants, 95 percent of the remaining funds within each group are awarded based on each Tribe's share of total participation in the group, and five percent of the funds are distributed based on each Tribe's share of total acreage within the group.

- Team members agree that participation is by far the most important determinant of administrative costs.
- Acreage was included in that it represents a cost driver over which ITOs have little or no control. The data source for acreage is "American Indian Reservations and Trust Territories," Economic Development Administration, Department of Commerce (1996).
- However, these data really do not provide a reliable indicator.
 - The data represent the size of reservations, even though large portions of many reservations are uninhabited and therefore unserved by FDPIR.
 - The data do not include "near areas," i.e., areas surrounding a reservation where the ITO has been authorized to operate the program.
 - Consideration was given to using the number of stationary distribution sites and tailgate sites under a program instead of acreage, but the Team did not adopt this alternative because it represents a discretionary decision on the part of the ITO. That is, based on the budget it negotiates with the Regional Office and tribal contributions to the program, an ITO may be able to establish more distribution locations than are necessary, whereas an ITO in another region may not in the past have received sufficient funding to make the program reasonably accessible.
- If this model had been implemented in FY 99 and the redistribution of funds fully accomplished in that year, Model A would have increased the grants of 54 ITOs and decreased the grants of 47. Fourteen ITOs would have experienced a reduction of more than 20 percent, while 26 would have gained more than 20 percent. (See Attachment C.)

Model B: After awarding base grants, 80 percent of the funding which remains for a group is distributed based on each ITO's share of total participation within the group, and 20 percent is distributed based on each ITO's share of total pounds of commodities distributed by the group.

- These cost-drivers should be extremely closely linked, but the data revealed some discrepancies. Therefore, taking the two factors together might yield a more accurate measure of costs than considering either one alone.
- However, the Team decided that these factors were more duplicative than complementary.
- Furthermore, the volume factor could provide an incentive for ITOs to persuade participants to take commodities they do not want and will not use.

- Fifty-seven ITOs would have gained funding, and 44 would have received reduced grants. Fourteen would have lost more than 20 percent, while 29 would have gained more than 20 percent. (See Attachment D.)

Model C. After awarding base grants, all of the funds remaining within the group are distributed based on each ITO's share of total participation within the group.

- This model relies exclusively on what is clearly the single most important determinant of administrative costs.
- It is also the easiest to calculate and understand.
- Sixty-five ITOs would have gained, while 47 would have experienced decreases. Thirty-three ITOs would have gained more than 20 percent, while reductions would have exceeded 20 percent for 12 ITOs. (See Attachments E and F.) Individual grants that would have been made under Options A, B, and C were calculated before it was decided to treat most ITOs under SAs the same way as ITOs with direct Federal agreements. These calculations are represented in Attachments C, D, and E, respectively. Attachment F represents Option C after the change in treatment of ITOs under SAs.)

ADDITIONAL ALTERNATIVES CONSIDERED BUT REJECTED

The Team considered several additional alternatives but rejected them because they would not accomplish one or more of the most important goals for the funds allocation system.

Formula which Excludes Groupings by Participation. At the June Conference of the National Association of Food Distribution Programs on Indian Reservations, several ITOs suggested that the Team explore the possibility of a formula which includes the above base grant structure but not groupings by participation level. All funds except base grants would be allocated based exclusively on each ITOs share of total FDPIR participation. Under this option, a radical redistribution of funds would have occurred because economies of scale are not considered. Large ITOs would have gained disproportionately, and small ITOs would have been impacted negatively.

Negotiating Multi-Year Administrative Budgets. Under this option, the current budget negotiation process would be retained, but negotiations would take place less frequently, e.g., once every two or three years. This alternative would reduce the number of Federal staff years necessary for administrative funds allocation. However, it was rejected because it would reinforce and perpetuate the inequities and inconsistencies in the current process. Furthermore, negotiation would still presumably be expected by ITOs for every year in which the total amount of funds available for FDPIR administration either increased beyond the level of inflation, or decreased.

Headquarters Distributes Funds to Regional Offices Based on a Formula. Under this approach, Headquarters would directly assign base grants to all ITOs. However, it would allocate the

remaining funds among Regional Offices based on total participation within the Region as a percentage of total program participation. Each Regional Office would then negotiate an administrative budget with each ITO as it currently does. This system would accomplish consistency **at the regional level, but not at the ITO level.** Furthermore, the same amount of Federal staff resources would be necessary to allocate funds.

Apply the CSFP Administrative Funding System to FDPIR. Commodity Supplemental Food Program (CSFP) legislation requires basically that 20 percent of total appropriations be reserved for program administration, and each SA and ITO receives a percentage of administrative funding based on its share of total assigned caseload. Caseload, i.e., the maximum average monthly participation an ITO or SA can serve during a program cycle, is not assigned in FDPIR. Therefore, under this option, administrative funding would be assigned to each ITO based on its share of total program actual participation for the most recent 12 months for which complete data are available, or, like CSFP, the FDPIR program cycle could be switched to the period January 1-December 31 so that data for the completed prior fiscal year could be used. However, this option does not take into account economies of scale. Therefore, it would advantage large ITOs over small ITOs and would cause a radical redistribution of funds.

CONSULTATION WITH PROGRAM COOPERATORS

A funding formula would be a departure from the status quo, and would cause some ITOs to receive smaller grants. Thus the shift to a formula would be controversial.

Furthermore, as indicated above, Executive Order 13084 calls for consultation with Indian Tribal Governments on policy issues which affect them. For these reasons, the Team recognized that it would be necessary to share information with all stakeholders from the outset, and to actively seek their input and involvement.

- The Team's deliberations on this issue were posted on the USDA Web Site shortly after each meeting except the last, for which the Team's final recommendations are the output. Final recommendations were shared with the public through this medium when this report was submitted to the Senior Oversight Committee.
- The Team included the President and Treasurer of NAFDPIR, who are program directors as well as representatives of the Association.
- Throughout the process, Team members representing both the Association and the Regional Offices systematically maintained communication with their colleagues, both to share information and to secure input which the Team subsequently considered.
- The Team sent a detailed description of the administrative funds allocation issue, together with a full description of all three formula models and their hypothetical impacts on each individual ITO, to the heads of all participating ITOs and SAs during the first week in June. The mailing also included a questionnaire intended to facilitate making and analyzing comments.

- In mid-June the Team made a detailed presentation on the issue and the formula models at the NAFDPIR annual convention in Knoxville.
- Following the convention, Regional Office and tribal Team members repeatedly contacted program directors, and sometimes Tribal Governments, to encourage submission of comments.
- The Team does not consider expressions of opinion by Tribal Governments to be a vote on the issue of a funding formula, although quantitative analysis of comments did inform the Team's final recommendation. Members were more interested in substantive comments identifying flaws in the formula options, ways that they could be improved, and relevant issues that the Team had failed to consider.
- The Team received comments from 60 percent of the ITOs and State agencies. The respondents were split on the issue of implementing an administrative funding formula; 49 percent supported a funding formula and 45 percent were opposed. (Six percent did not express either support or opposition.) Support for an administrative funding formula generally came from ITOs that stood to gain funding under all three options, specifically the ITOs in SWRO and WRO. However, although most of the ITOs in MPRO would have gained funding under all three options, they generally opposed the concept of an administrative funding formula. Option C received the highest support from those respondents that supported a specific option. (See Attachment G for a listing of each Tribe's response to each issue covered by the comment solicitation form included in Attachment B.)
- In addition to responding directly to survey questions, many respondents provided additional comments. Below are some of the more prevalent comments:
 - Supporters of a funding formula feel that it would: 1) provide a fair and equitable means of allocating administrative funds; 2) expedite the budget process; and 3) provide a clear understanding of how funds are distributed. Proponents of Option C consider it the simplest and most direct method for calculating administrative funding.
 - A number of comments concern the government-to-government relationship between the Tribes and USDA. Eleven Tribes/SAs in the Mountain Plains Region and two in the Midwest Region feel, in some instances quite strongly, that an administrative funding formula would infringe on the Tribes' treaty rights. (One of these Tribes accepts a formula grant for CSFP administration without opposition. Numerous others have long accepted procedures for establishing WIC administrative grants, which depend on a formula.) These Tribes want to remain active partners in the funds allocation process through negotiation.
 - Several commenters believe that the funding inequities that currently exist are limited to one Region. (The evidence does not support this view.) They point out that Resolution 98-03 was passed by a narrow margin and did not have the unanimous support of the NAFDPIR membership.
 - Some commenters feel that each Tribe is unique and must be treated that way. Any attempt to treat Tribes the same way under a funding formula would be inequitable.

- Other commenters feel that they did not clearly understand the implications of the three funding formulas and wanted to have more discussions before any change was implemented.

RECOMMENDATION #3

The Team recommends : (1) implementation of Model C, under which base grants are first awarded to ITOs and the remainder of funding is distributed based on participation levels; (2) phase-in of the increases and reductions in funding that individual ITOs would experience over a period of three years ; and (3) continuation of the annual voluntary reallocation process.

- This option achieves all of the Team’s final goals for administrative funds allocation. It is superior to the other funding models because it is simpler; it depends exclusively on reliable data and excludes problematical data such as acreage and volume distributed; and it is based on participation, undeniably the most important cost driver.
- Phasing in the redistribution of funds over three years would allow ITOs experiencing a decrease to make necessary adjustments gradually without risk to the quality of program administration. ITOs that receive more funds would be able to phase in program management improvements with the benefit of careful planning rather than making quick changes to absorb all available funds.
- FNS should continue to conduct a voluntary reallocation of funds toward the end of each fiscal year, recognizing that some ITOs receiving increased funding may not be able to effectively utilize the increase every year while others may experience special difficulties in adjusting to decreases. Reallocation could prove to be especially helpful in the early years of formula implementation.
- Numerous trial runs of the various models were conducted to measure potential impacts on all Tribes. Neither the extent of redistribution of funds nor the numbers of ITOs which would experience a gain or reduction in funding differed to a great extent from option to option.
- The Team also decided, contrary to its initial inclination, not to establish a set-aside for Regional Offices to allocate among ITOs outside of the formula.
 - Set-asides were initially favored as a way to facilitate capital expenditures. Regional Offices could survey the capital needs of ITOs under their jurisdiction and develop a long-range plan for acquisitions that would permit them to rotate the large sums necessary for major purchases, e.g., trucks, among ITOs so that each ITO’s needs could be met over a period of years. However, some ITOs have discovered that it is more economical to lease equipment, with agreements that include maintenance. Leasing could be even more economical if ITOs formed consortiums for lease contracting. Leasing requires smaller, steadier expenditures year to year that could easily be accommodated by a formula.

- Regional set-asides would also complicate a formula because the funds that had been set aside each year and granted to ITOs would have to be subtracted from each individual ITO's grant for purposes of calculating formula grants in the following year in order to (1) avoid distortion in the total funding available for each participation size group, and (2) maintain funding for the set-aside from year to year.
- Allocating set-asides would entail a significant commitment of Regional Office staff resources, limiting the streamlining potential of the formula.
- The absence of set-asides also means that ITOs would receive their fair shares of all available funding at the outset, thus enabling them to budget more effectively and increasing their control over funds which are, after all, provided for their use.
- The only foreseeable justification for any form of set-aside in the future would be support of a nutrition education initiative in which the advantages of centralized planning and implementation are clear.

IMPLEMENTATION OF THE FINAL RECOMMENDATION

- Absent authority to waive current regulatory requirements, implementation of a funding formula would require proposed and final rulemaking. Current regulations imply the negotiation of a total administrative budget, and assign a share of the responsibility for meeting budgeted needs to USDA and to the ITO, to the extent that available resources permit.
- The rulemaking process would give an even broader audience an opportunity to comment formally on this controversial proposal.
- The preamble of the proposed rule would describe the proposed formula in detail, and discuss its potential impact on grants for individual ITOs.
- In contrast, the regulatory language itself would remain general in order to facilitate any necessary adjustments in the formula over time. It would commit USDA to a formula that includes a base grant structure, allocates the remainder of funds based on participation, reflects economies of scale, and phases in grant adjustments resulting from formula implementation over a period of three years. Regulatory language would also stipulate that the formula would be modified only after consultation with participating Indian Tribal Governments and State agencies.

TRIBAL MATCHING REQUIREMENT

Independent of the formula issue, the Team also considered whether the ITO matching requirement should be retained, dropped, or modified.

BACKGROUND

- Under the current system, regulations require that ITOs/SAs match in cash or in-kind contributions 25 percent of the total negotiated budget.
- Regulations authorize FNS to reduce the required match based on “compelling justification” provided by the ITO/SA.

Team deliberations and comments from stakeholders yielded the following arguments.

Reasons to retain the matching requirement:

- If the matching requirement were removed, some Tribal Governments might withdraw or reduce vital support for the program.
- The matching requirement represents the ITO’s stake in the program and its partnership with USDA in meeting the nutritional needs of its low-income members.
- Most other nutrition assistance programs include a State matching requirement.

Reasons to remove the matching requirement:

- In some instances, the match is merely a paper exercise rather than a substantive contribution to program administration.
- Often, ITOs use a tribally owned warehouse to meet most of the match. If the match were removed, the warehouses would not cease to be available to the program.
- It should not be necessary to require Tribal Governments to support a program which meets the most basic need of their low-income members. Some tribal officials have indicated that the matching requirement represents an intrusion on tribal sovereignty, a command to meet a need that they as responsible administrators would voluntarily address.
- Regional Offices take inconsistent approaches to the match. In some regions, reductions to the match are routinely granted, while in others, reductions are rarely, if ever, approved.
- Regional Offices must approve or deny requests to reduce or waive the matching requirement. For each request, they must conduct a comprehensive assessment of a Tribe’s financial status through examination of audits and financial reports. Retaining the match would offset some of the savings in FNS staff time achieved through a funding formula.

The Tribal Governments and local program directors were asked whether they felt the 25- percent matching requirement should be removed. Sixty percent of the ITOs and State agencies responded to the survey. The responses do not provide a clear picture of the general opinion on this issue. Thirty percent of the respondents want to eliminate the matching requirement, while 30 percent want to retain it. However, 40 percent of the respondents did not respond to this

question. The comments were split between those who felt that the Tribes do not need a Federal requirement to commit tribal funds to the program, and those who felt that tribal commitment to the program would diminish without the matching requirement.

RECOMMENDATION #4

The Team recommends that the matching requirement be removed. However, Regional Offices must continue to assess the management of programs. FDPIR regulations should be amended to state very clearly that, if regions observe management or service deficiencies that result from insufficient resources, they will pursue the need for increased tribal support directly with Tribal Governments.

- This recommendation more closely links the appropriate level of tribal contributions to resource needs specifically identified through ongoing assessment of program administration. Tribal Governments may, for example, be informed that they need to provide an additional part-time employee to expand the distribution schedule rather than that they are two percent short of meeting the 25-percent matching requirement.
- The recommendation also addresses the most frequently expressed concern among tribal program directors: If the matching requirement is removed, Tribal Governments might not provide adequate program support.
- The Team considered, but rejected, replacing the matching requirement with a maintenance-of-effort requirement. While this approach would mandate tribal support at specified levels without requiring significant staff input from Regional Offices, it would replace one essentially arbitrary requirement with another.

NUTRITION EDUCATION IN FDPIR

BACKGROUND

- Given the high incidence of diet-related health conditions such as diabetes, hypertension, and obesity among Native Americans, effective nutrition education in FDPIR is critically important.
- FDPIR regulations require rudimentary nutrition education. ITOs/SAs must “publicize how commodities may be used to contribute to a nutritious diet. . . .”
General FDPIR administrative funds can be used for nutrition education. In recent years, \$200,000 has been set aside specifically to support nutrition education. Past nutrition education efforts have achieved only mixed success due to approaches that have varied widely in quality, funding limitations, interruptions in funding from year to year, and a general absence of long-range planning, persistence, and intensity.
- FNS works closely with the National Association of Food Distribution Programs on Indian Reservations and experts on Indian health and nutrition issues in an ongoing effort to improve the program food package. However, other factors contribute significantly to diet-related health conditions among this population, including:
 - Food choices which participants make outside of the food package
 - Methods participants use to prepare USDA commodities and other foods
 - Sedentary lifestyle.

RECOMMENDATION #5

Develop a five-year strategic plan for FDPIR nutrition education and actively seek a long-range funding commitment that will adequately support the plan. The strategic plan should:

- **Be coordinated with ongoing reexamination of the program food package to achieve a synergy that yields better participant choices from an increasingly healthful, appealing, and varied food package.**
- **Be developed in partnership with NAFDPIR and have the endorsement of Indian Tribal Governments.**
- **Position FNS as a coordinating agency which seeks the co-sponsorship of, and a material commitment from, other Federal stakeholders, including the Indian Health Service and the Centers for Disease Control. Seek a memorandum of understanding among these agencies that reflects the strategic plan.**
- **Facilitate coordinated, cooperative nutrition education efforts at the tribal level that bring together appropriate local resources such as schools, FDPIR, WIC, alcohol and drug abuse counseling services, tribal media, and athletic and fitness programs.**

- **Include an evaluation component, for example, to measure effectiveness in terms of nutrition education service units provided, and outcomes, such as changes in diet, nutrition knowledge, and biometrics.**

